

# EXHIBIT M

ACTION WHA-00

RELEASER IN PART

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|      |         |         |         |         |         |         |         |
|------|---------|---------|---------|---------|---------|---------|---------|
| INFO | LOG-00  | AID-00  | A-00    | CEA-01  | CIAE-00 | CTME-00 | INL-00  |
|      | DEAE-00 | DODE-00 | DOEE-00 | ITCE-00 | DOTE-00 | PDI-00  | DS-00   |
|      | EAP-00  | EB-00   | EXME-00 | OIGO-00 | E-00    | FAAE-00 | UTED-00 |
|      | VCI-00  | FRB-00  | H-00    | TEDE-00 | INR-00  | LAB-01  | L-00    |
|      | M-00    | VCIE-00 | NSAE-00 | ISN-00  | NSCE-00 | OES-00  | OIG-00  |
|      | OMB-00  | NIMA-00 | EPAU-00 | MCC-00  | GIWI-00 | ISNE-00 | SP-00   |
|      | SSO-00  | SS-00   | STR-00  | FMP-00  | BBG-00  | R-00    | EPAE-00 |
|      | IIP-00  | SCRS-00 | DSCC-00 | PRM-00  | DRL-00  | G-00    | NFAT-00 |
|      | SAS-00  | SWCI-00 |         | /002W   |         |         |         |

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R 211451Z APR 06  
 FM AMEMBASSY LIMA  
 TO SECSTATE WASHDC 9925  
 INFO AMEMBASSY BOGOTA  
 AMEMBASSY BRASILIA  
 AMEMBASSY BUENOS AIRES  
 AMEMBASSY CARACAS  
 AMEMBASSY LA PAZ  
 AMEMBASSY QUITO  
 AMEMBASSY SANTIAGO  
 USDA FAS WASHDC//USD 1440  
 DEPT OF COMMERCE WASHINGTON DC  
 DEPT OF TREASURY WASHDC

UNCLAS LIMA 001534

DEPT FOR WHA/AND , EPSC AND OES/ETC,ENV  
 BRASILIA FOR ESTH HUB - J STORY  
 USAID FOR LAC , EGAT  
 USTR FOR B HARMANN, M BURR  
 COMMERCE FOR M CAMERON  
 USDA/AS/FAA/BAILLEY AND USDA/FAS/ITP/FSTSD/BREHM

SENSITIVE  
 SIPDIS

E.O. 12958: N/A  
 TAGS: SENV, ETRD, EINV, EAID, ECON, PGOV, SNAR, PE  
 SUBJECT: ILLEGAL LOGGING THRIVES IN PERU

REF: LIMA 2444

1. (SBU) SUMMARY: Peru exports the most broad leaf mahogany in the world, a majority of it to the U.S. Much of the exports are likely from illegal logging, violating Peruvian law and the CITES international convention against trafficking in endangered species. The GOP, NGO community

UNITED STATES DEPARTMENT OF STATE  
 REVIEW AUTHORITY: DAVID W COX  
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and Peruvian logging industry agree that illegal logging is a problem.

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The formal forest products industry, concerned about legal challenges to mahogany exports, appears interested in working to reduce illegal logging. Post is exploring options such as applying for OES-I Project funds and realigning USAID programming. END SUMMARY.

#### DIRE MAHOGANY SITUATION

2. (U) Peru now is the world's largest exporter of broad leaf mahogany, according to the latest report of the International Tropical Timber Organization (ITTO). Brazil reportedly no longer allows legal export of broad leaf mahogany, and the Bolivian government is reducing legal exports due to its declining stocks. Legal exports of Peruvian mahogany have declined steadily since, according to the 2005 report of the GOP's natural resources monitoring and enforcement agency, INRENA. Since 2002, the agency's estimate of illicit exported mahogany has been 60,000 cubic meters per year. Broad leaf mahogany continues as an endangered species under Appendix II of the International Convention against Trafficking in Endangered Species (CITES). The high selective extraction of reproducing trees, the slow reproduction rate of wild mahogany, and the inability so far of silviculturalists to develop healthy mahogany plantations have combined to cause a steady decline in mahogany stocks.

#### PROBLEMS WITH MAHOGANY BUYERS AND SELLERS

3. (U) Ten firms with INRENA permits account for over 85 percent of Peru's mahogany exports. The United States continues to be by far the largest importer of mahogany importing 88 percent of Peru's total 2005 mahogany exports. Unofficial INRENA estimates indicate that 70-90 percent of all mahogany exported in 2005 originated from illegal sources.

4. (SBU) INRENA's current verification process, implemented as a result of USAID support, is confirming that mahogany is being harvested not from the commercial concessions but from protected areas (where commercial extraction is prohibited) and from areas in indigenous territories different than those specified in INRENA-approved logging plans. INRENA must approve all logging plans to extract mahogany legally from commercial forestry concessions, indigenous community lands, and agricultural land with remnant forests.

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5. (SBU) Reliable INRENA sources and civil society groups report that mahogany loggers exploit indigenous communities by paying below-market prices. The loggers also are involved in forced labor, according to the International Labor Organization (ILO). Moreover, commercial timber extraction from forested remnants of agricultural land is considered the most common system to launder illegal timber. There is a long history of extracting mahogany from remnant forests and the origin of the cut timber is hard to trace.

PERU SETS QUOTAS AT LAST

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6. (SBU) Despite domestic political pressure against the measure, INRENA (with USG support) set in May 2005 Peru's first mahogany export quota. INRENA established the quota for 2005 at 23,621 cubic meters (m<sup>3</sup>). INRENA concluded that an export quota was the most cost-effective and scientifically defensible way to manage the resource and

fulfill CITES requirements after it verified, with direct USAID support, 52 concessions. The verification process showed that 60 percent of these concessions presented serious infractions, including document falsification, timber extraction outside the concession boundaries and links to bribes. The other 40 percent showed they were complying with the minimal management standards per Peruvian law, but still required corrections. None of the concessions verified showed high management standards. As a result, INRENA set a mahogany quota, suspended the granting of new concessions and requested USAID-targeted support to correct the identified weaknesses.

7. (U) INRENA officials said that a quota allowed official exports to be controlled while better methods were developed to farm mahogany in plantations or foster regeneration of wild stocks, and until a reliable supervision system could be put in place. INRENA set a quota for 2006 at 23,239 m<sup>3</sup>. As of March 2006, Peru has exported 5,698.57 m<sup>3</sup>, most of which has gone to the United States. (Note: Given the acknowledged problem with illegal logging, we were surprised that INRENA reduced the quota by only 394 m<sup>3</sup> for 2006. End Note.)

8. (SBU) INRENA based the 2005-06 quota on various criteria. This included: historical exports; requirements for non-detrimental legal exports under Appendix II of CITES; and INRENA projections of available commercial timber volume for the harvest seasons. INRENA considered as well NGO and ITTO data on the continuing reduction of mahogany populations in Latin America. The National Agrarian

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University (UNALM) is the CITES scientific authority for "non-detiment" in Peru. The University has been unable to produce a definitive census or other reliable monitoring system of mahogany stocks; UNALM finally delivered to ESTHoff on April 3 a promised preliminary census. UNALM's report states that Peru's mahogany population has declined dramatically, from 768,220 trees (224,733 in protected natural areas) to 304,630 trees (87,888 in protected natural areas).

MISPLACED SUPPORT FROM CITES AUTHORITIES...

9. (SBU) At the last international CITES meeting, in October 2005, INRENA presented a series of accomplishments it claimed had been made in the fight against the illegal cutting of mahogany. When the CITES Commission lauded Peru's gains in the management of forest resources and environmental governance, it also noted the fragility of these gains. Highlighting future challenges, the Commission identified the "increased powers" of an illicit forest management cartel; the cartel's strengthened linkages to what it called the Coca Cartel; and the continued crisis in institutional capacity. (Comment: Post does not believe that there is either a single illicit logging cartel nor a single coca cartel. End Comment.)

10. (SBU) At the CITES meeting, the GOP cited as an accomplishment its computerized system to track mahogany harvest, a system developed with USAID funding.

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few weeks ago, when the story appeared in the media, INRENA claimed it would address this situation.

11. (SBU) INRENA at the last CITES meeting announced that it was re-structuring itself to ensure greater "separation of powers" among INRENA's management, forest supervision department (OSINFOR), and its departments for protected areas and species. More than five months since the meeting, the new structure has yet to be implemented.

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GROWING NEXUS BETWEEN ILLEGAL LOGGING AND NARCOTRAFFICKING

12. (SBU) The narcotrafficking presence on the eastern slopes of the Andes puts even more pressure on mahogany and cedar populations. Narcotraffickers with established networks for moving coca paste and opium latex appear to be getting involved in transport of illegal timber, for both its profitability and its utility as concealment. For example, GOP officials and mining developers familiar with mine exploration activities at the northern border with Ecuador told Econoff in July that a local Mayor has been involved in both illegal logging and opium poppy production.

13. (SBU) Police in Loreto Department told Econoff in June and September that they continue to find coca paste packages hidden in mahogany and cedar shipments. The transported mahogany trunks, or stacked loads of sawn lumber, are so huge, and the number of shipments so massive that police catch only a tiny fraction of the coca that they estimate is transported from the Andes downriver to Brazil. DEA's Lima Country Office -- which actively assists GOP law enforcement in eliminating the concealment of illicit drugs in wood shipments, believes that suspected shipments are large.

USAID RESPONSE

14. (U) Consistent with its overall objective of assisting GOP institutions to take the lead and become accountable for sustainable natural resources management and conservation of biodiversity, USAID continues to support transformational development interventions. USAID funds and advises INRENA on issues related to sustainable natural resources management, management of protected areas, institutional capacity strengthening, and policy and legal controls. USAID decided recently to discontinue support for the computer registration program because of the credible allegations of corruption and the lack of INRENA action to address the situation.

15. (U) USAID is pursuing the most effective way of combating illegal logging, through legal forest management. USAID is working with INRENA to achieve international certification of forests and the lumber export chain, limiting participation in programs to operators whom USAID can certify. Working with a small group of private concessionaires and 10 different indigenous communities, the objective is to certify approximately 200,000 hectares by December 2006. The initial results are promising, but the

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task is daunting.

## PRIVATE SECTOR CONCERNED ABOUT ESA LITIGATION

16. (SBU) In late March and early April meetings with Econoff and USAID Environmental officer, Peruvian Association of Exporters (ADEX) representatives expressed their concern about what misrepresentations of fact in the copy of Notice to Sue, written by NGO Natural Resources Defense Council (NRDC) under the Endangered Species Act (ESA). During the meeting ADEX representatives admitted that the problem was great, but that there existed a core group of exporters interested in "doing this right." ADEX members are particularly concerned about current lumber shipments soon to depart Peru bound for the U.S.

## PARTNERSHIP WITH THE PRIVATE SECTOR

17. (SBU) While Peru's forested land accounts for over 64 percent of the country's surface, forestry accounts for only

one percent of GDP. One of the most compelling issues identified towards the achievement of forest and biodiversity sustainability and promotion of licit livelihoods is to promote international standards for certification and chain of custody. The forest products firms in Peru appear to want to change that. ADEX recently acknowledged in a public presentation the problem of illegal logging, the opportunity to increase exports and GDP and some suggestions for reforming GOP oversight of the forest products industry (Reftel).

## COMMENT: MUCH TO BE DONE

18. (SBU) Peru's forest management has been trouble for years, and its legitimate mahogany exports for the important U.S. market are in jeopardy. Peru risks violating not only CITES, but also the recently-signed free trade agreement with the United States, which will require Peru to enforce its local and international obligations. If the GOP does not maintain its quota in the face of continuing illegal harvest, it risks suspension of imports by the European Union, destruction of an endangered species and a defeat of the rule of law. U.S. wood importers need to join the effort by investing in the system's improvement.

19. (U) The U.S-Peru free trade agreement may provide an additional tool to move Peru along a path of compliance and conservation, promoting legal trade with the United States. Post will continue discussions with industry representatives

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on how to promote greater industry compliance with international standards. The International Wood Products Association has also expressed interest in helping to assure legal U.S. imports. Logging/export certification, if properly funded, could fit into a Post trade capacity building program for implementation of the U.S. trade deal. Post is applying for an OES-I project grant for this purpose.

20. (U) Embassy will raise with appropriate GOP officials the need to maintain a credible approach to mahogany exports and adhere to international forest and chain of custody certification standards. USAID will continue to work with INRENA, the private sector and indigenous populations to ensure that INRENA acquires the needed capacity to be held accountable for the proper and sustainable management of natural resources in Peru. Advancing the responsible promotion of the forest sector is the best alternative to the illicit livelihoods that sustain many in the current forest sector.

21. (U) This cable was co-drafted with USAID Lima.

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